An Introduction
to
Islamic Banking

- All Praise and gratitude be to Allah (SWT) on the blessing of Islam which suffices as a blessing.

- O' My Allah, open my chest; ease my task for me and remove the impediment from my speech so that they may understand what I say

Trainers Profile – Muhammad Farhan ul Haq Usmani

Joined Meezan Bank Limited in the year 2005. Main areas of responsibility include Capital Market Product Development & Implementation, Shariah Compliance & Audit, and Capital Markets & Asset Management Advisory.

Holds Baccalaureate in Business Administration, Commerce and Masters in Economics, from University of Karachi.

A Certified Islamic Banker from Center for Islamic Economics, Karachi (A Division of Jamia Dar ul Uloom Karachi, Chaired by Justice Muhammad Taqi Usmani).

Government of Pakistan's Scholar and a PhD candidate in Islamic Banking & Finance at University of Karachi, under the supervision of Dr. Muhammad Imran Ashraf Usmani. Area of research includes Islamic Capital Markets, Shariah Compliant Fund & Asset Management.

Prior to joining Meezan Bank has worked with various Professional Advisory & Consulting Firms where he was involved in providing professional consultancy services related to Accounting, Auditing, Taxation and ERP systems development & Implementation.

Outline

- Importance of Banking
- Why Islamic Banking?
- World Wide Position
- World Economic History
- What distinguishes Islamic banking from conventional banking
- Islamic banking Today
- The way forward

Importance of Banking

- Banking is the most important sector of the modern day economy.

- It provides an opportunity to the household with surplus capital to select the best mix of investments in terms of return and tenors & security.

- It provides an opportunity to businesses and Governments to finance their activities through obtaining surplus funds.

Why Islamic Banking?

Importance of Purifying the Source of Income in Islam

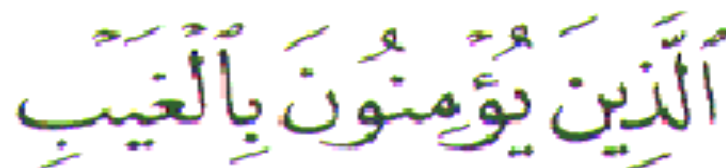
- The body which is nourished by non-pure sources is bound to hellfire.
- On the day of Judgment, a person will not be moved from the place which he stands until he is asked about the sources of his income, and the ways he spent it.
- Purifying the source of ones' nourishment is one of the important reasons for the acceptance of supplications by Allah.

THE QURAN

"That book has no doubt in it" ***(2:2)***

This is the word of Allah …No doubt in it.
Its contents are also beyond doubt.

- Be conscious of God thus be conscious of yourself

"Who believe in the unseen" (2:3)

- Ghaib: Not perceived through the five senses.
- Includes Allah, Angels, Day of Resurrection, life after death, Al Qadar and other phenomenon that we cant comprehend

“And establish prayers” 2:3

- Salah: Pray, to focus on something. In Islamic terminology, it means praying 5 times.

“And spend out of what we have provided them”2:3

Mutaqueen believe in sharing… they are not self-centered

"And who believe in what has been revealed to you" 2:4

وَالَّذِينَ يُؤْمِنُونَ بِمَا أُنزِلَ إِلَيْكَ

"And in what has been revealed before you" 2:4

وَمَا أُنزِلَ مِن قَبْلِكَ

"And they are certain of the Hereafter"   2:4

A man is not irresponsible in this world but answerable to Allah for his deeds.

"They are on (true) guidance from their Lord, and they are successful " (2.5)

It our duty to

- Believe that Quran is the book from GOD
  - Have no doubts
- Be conscious of GOD
  - and consequently ourself
- Believe in the unseen/unknown
  - Accept the limitation of our comprehension and senses
- Establish prayer
  - Be disciplined. Be focused
- Give charity
  - Be willing to sacrifice

- Believe in the messages/books that came before and in Quran
  - Don’t exclude anyone
- Believe in the day of judgment
  - Accept responsibility of our decisions/actions
- As a consequence you will be the rightly guided and successful.

Al Baqarah 275

ٱلَّذِينَ يَأْكُلُونَ ٱلرِّبَوٰا۟ لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ ٱلَّذِى يَتَخَبَّطُهُ ٱلشَّيْطَٰنُ
مِنَ ٱلْمَسِّ ۚ ذَٰلِكَ بِأَنَّهُمْ قَالُوٓا۟ إِنَّمَا ٱلْبَيْعُ مِثْلُ ٱلرِّبَوٰا۟ ۗ وَأَحَلَّ ٱللَّهُ ٱلْبَيْعَ وَحَرَّمَ ٱلرِّبَوٰا۟ ۚ
فَمَن جَآءَهُۥ مَوْعِظَةٌ مِّن رَّبِّهِۦ فَٱنتَهَىٰ فَلَهُۥ مَا سَلَفَ وَأَمْرُهُۥٓ إِلَى ٱللَّهِ ۖ وَمَنْ عَادَ
فَأُو۟لَٰٓئِكَ أَصْحَٰبُ ٱلنَّارِ ۖ هُمْ فِيهَا خَٰلِدُونَ ٢٧٥

"Those who devour Riba shall rise up before Allah like men whom Shaitan has demented by his touch; for they claim that trading is like usury. But Allah has permitted trading and forbidden usury. He that receives an admonition from his Rabb and mends his ways may keep what he has already earned; his faith is in the hand of Allah. But he that pays no heed shall be among the people of fire and shall remain in it forever."

Al Baqarah 278 - 279

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُواْ ٱتَّقُواْ ٱللَّهَ وَذَرُواْ مَا بَقِيَ مِنَ ٱلرِّبَوٰٓاْ إِن كُنتُم
مُّؤْمِنِينَ ﴿٢٧٨﴾ فَإِن لَّمْ تَفْعَلُواْ فَأْذَنُواْ بِحَرْبٍ مِّنَ ٱللَّهِ وَرَسُولِهِۦۖ وَإِن
تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَٰلِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ ﴿٢٧٩﴾

"O you who believe, Fear Allah and give up what remains of your demand for Interest, if you are indeed a believer. If you do not, then you are warned of the declaration of war from Allah and His Messenger; But if you turn back you shall have your principal: Deal not unjustly and you shall not be dealt with unjustly."

Selected Ahadith

From Hazrat Jabir Ibn-e-Abdullah (RA):

The Prophet, peace be on him, cursed :

- The receiver and the payer of interest,
- The one who records it and
- The witnesses to the transaction

And said: "They are all alike [in guilt]."

(Muslim, Tirmidhi and Musnad Ahmad)

Selected Ahadith

From Hazrat Abu Hurayrah (RA):

The Prophet, peace be on him, said: "Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother.“

(Ibn Majah)

Definition of Riba

كل قرض جر منفعة فهو ربوا

Every Debt that pulls any kind of gain is Riba

قرض کے ذریعے حاصل ہونے والی کسی بھی قسم کی منفعت ربا ہے

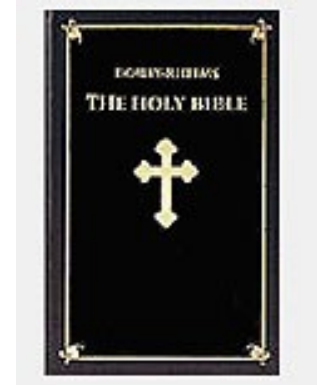
Riba means any excess compensation over and above the principal which is without due consideration. Its a premium paid to the lender in return for his waiting as a condition for the loan.

- Islam prohibits Riba in no unclear terms
- The nature and definition of Riba are clearly understood and today there is no ambiguity in its definition
- Every Muslim is duty bound to withhold the dictates given by Allah and His Messenger

Does ONLY ISLAM prohibits Interest?

- Prohibition of interest is not limited to Islam it is prohibited in **Judaism** and **Christianity**

- Exodus 22:25, Leviticus 25:35-36, Deuteronomy 23:20,Psalms 15:5, Proverbs 28:8, Nehemiah 5:7 and Ezakhiel 18:8,13,17 & 22:12

- *"Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of any thing that is lent upon usury." [Deuteronomy 23:19]*

Why Interest/ Riba Prohibited

- Key objective is to ensure **SOCIAL JUSTICE**
- Cannot be achieved without Economic justice
- Economic justice requires a viable economic system supported by an efficient banking system
- Interest based banking is **inefficient**
- Interest results in concentration of wealth.

Why Interest/ Riba Prohibited

- Islam encourages circulation of wealth and discourages its concentration in a few hands to narrow down the distinction between rich and poor, as far as is natural and practical.

- Circulation of wealth is as important as blood in our body: Clot of blood paralyzes our body, whereas concentration of wealth in a few hands paralyzes economy. Monopoly is prohibited.

Global Position

World position

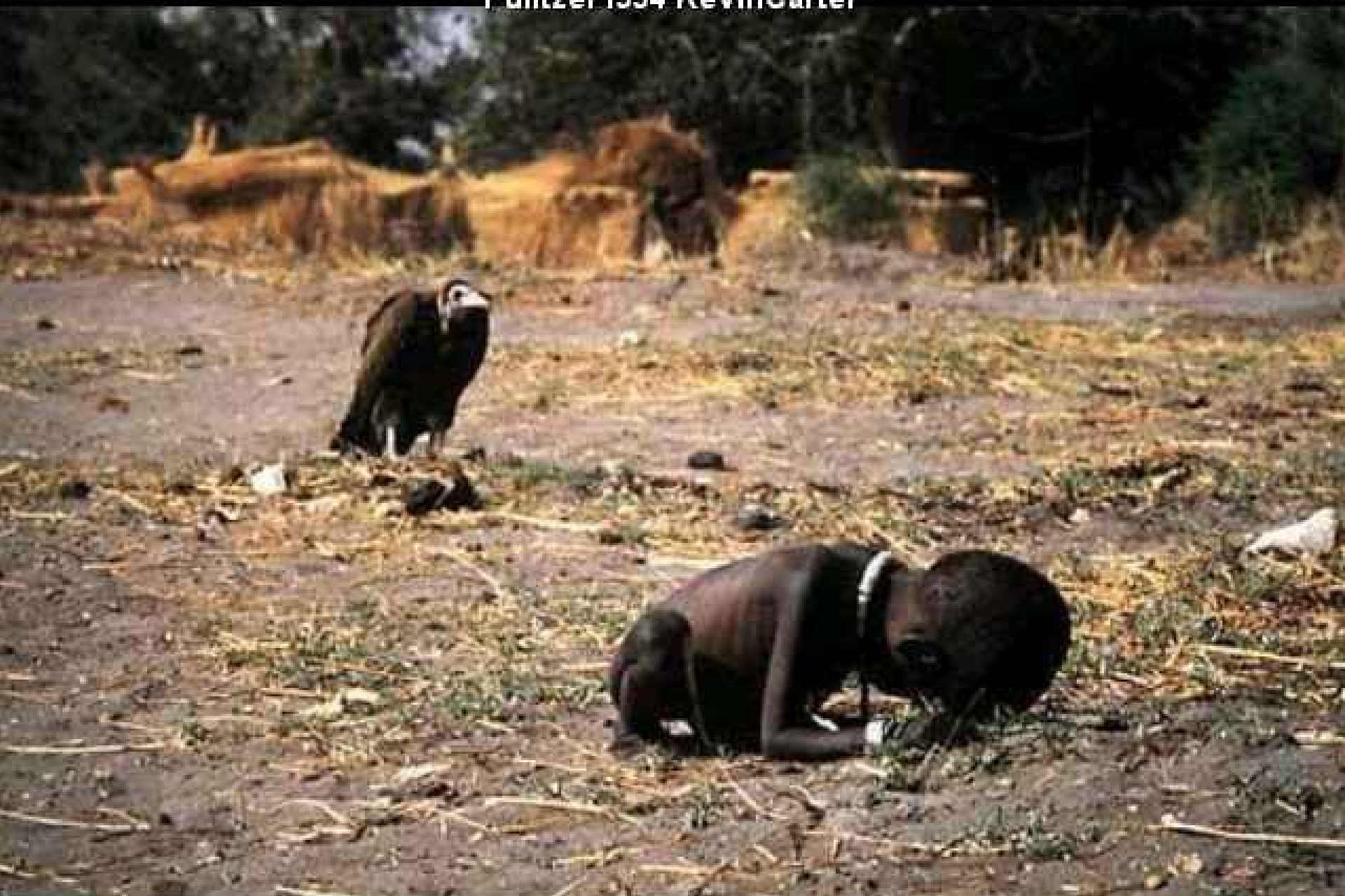
- In USA 200 corporations control most of the economic activities
- 1% of all tax filers own 48% of all the stocks held by individuals
- In Africa, spending on debt servicing is 5 times more than public health

Monopoly & debt

- Even the agriculture sector is moving towards consolidation of farms and land in few hands, resulting in huge multinational corporations owning vast land and controlling food supplies.
- Third world debt level has reached a proportion that it can never be paid back

Global slavery

- Ghana's farming land is now used to grow coca for chocolate bars while half of Ghana's children are malnourished. Resources are being diverted towards cash crops to make interest payments on debt.
- Each person in Sub-Saharan Africa owes 30 times more than he will earn in his lifetime.
- This has introduced a new form of global slavery

Pulitzer1994 KevinCarter

The debt trap

- The total debt of developing countries in the year 2000 stood at $ 2200 billion

- According to the World Bank Global Development Finance for every one dollar given to the poor countries in aid, the rich nations take back $ 9 in debt repayment

- The poor countries have to borrow more just to keep up the interest payment (95% of borrowing)

The debt trap

- Money that should be spent on education and health care is, instead spent on servicing debt.
- Some 19000 children dies every day as a result of debt

The debt trap

- 20% of the current third world debt is due to money lent to buy arms
- As a result developed nations have first fueled conflicts and then sold arms to both factions
- A major portion of what is left is often spent on useless mega projects, balance is squandered in private accounts

The vicious circle

- Poor nations are in debt economically and indebted mentally
- All the wealth is flowing towards western nations, from currency to manpower, from intelligence to talent, once gone they get caught in the glitter of the web
- Vital resources are sucked away

The vicious circle

- Nations caught in debt trap, after payment of interest, have no money left for developing infrastructure, hence standard of living goes down, unemployment increases
- Apparent territorial integrity intact but no resources, no independent policy

The disparity

- Europe spends US$11 billion on ice-cream, 105 billion on alcoholic drinks, 12 billion on perfumes.
- Japan spends 35 billion on business entertainment, while one billion people in this world have no adequate shelter. 100 million are homeless.

The disparity

If the 225 richest people of the world spend only 4% of their wealth, this will amount to $40 billion. An amount sufficient to provide access to basic education, health care, adequate food, safe water and sanitation for all the poor people in the world.

ARTIFICIAL Economy & Inflation

"Financial derivatives have grown to a US$64 trillion (64,000,000,000,000) by 1996. How do you imagine a number that big? You could say that if you laid all those dollar bills end to end, they would stretch from here to the sun sixty-six times, or to the moon 25,900 times." (Richard Thomson: Apocalypse Roulette: the lethal world of derivatives. London 1998 P.4)

World Economic History

ECONIMIC HISTORY

History of Economic Development

Source : Cambridge's Economic History of Europe

Author : Henry Poston

Acknowledgement: Pervaiz Said, Director Islamic Banking SBP

ECONIMIC HISTORY

- In Greek civilization, politics, war and land ownership were the occupations of the elite
- Trade was considered a lowly profession
- The god of traders was Hermes who was also the god of thieves and bandits

ECONIMIC HISTORY

- Roman civilization is often considered a great army
- War and Politics were the noble professions
- Industry was slave driven, trade was a lowly profession
- The god of traders, thieves and bandit was Mercury

ECONIMIC HISTORY

- Christians treated the traders the same way as the Greeks and the Romans
- Jesus Christ removed the traders and money lenders from his temple by saying " no thief and robber will be in the temple …."

ECONIMIC HISTORY

- In Christian Europe traders visiting from outside the city were allowed to trade in the day time and locked up at night
- Surplus money was kept in the temples for safety and not invested in trade or industry

Whereas Allah has permitted trading

and forbidden Riba

Economic History after Islam

- Islam permitted trade and prohibited interest
- At that time there were few apparent understandable reason for normal person this except that it was the word of God
- Now the world is witness to the development that resulted through allowing trade

Economic History after Islam

- Trade was introduced to Europe by the Muslims
- When Muslims conquered part of Europe they destroyed the temples and invested the money so released in trade
- Venice was the first city where trade between Muslims and Christians flourished

Economic History after Islam

- Christians took to trade which resulted in riches for the Christians
- Venice flourished and remained so from the 8th to the 14th century
- The main modes of finance were Musharika and Mudarba

Economic History after Islam

- Trade between cities flourished under Musharika and Mudarba
- Trader risked his life and the investor his money
- Profit was shared
- Concepts of Joint Stock Company and limited liability came from here

Economic History after Islam

- During crusades and later Jews were the only people with unhindered access to all cities
- Consequently they became traders and flourished
- Later they decided not to be involved in active trading and started financing trade through interest bearing loans

Economic History after Islam

- Interest was thus introduced as a corruption of the system
- It was meant to favor and protect the investor at the cost of the trader
- Getting out of interest is restoring of the balance and not turning the clock back

What distinguishes Islamic banking from conventional banking

What Distinguishes Islamic Banking

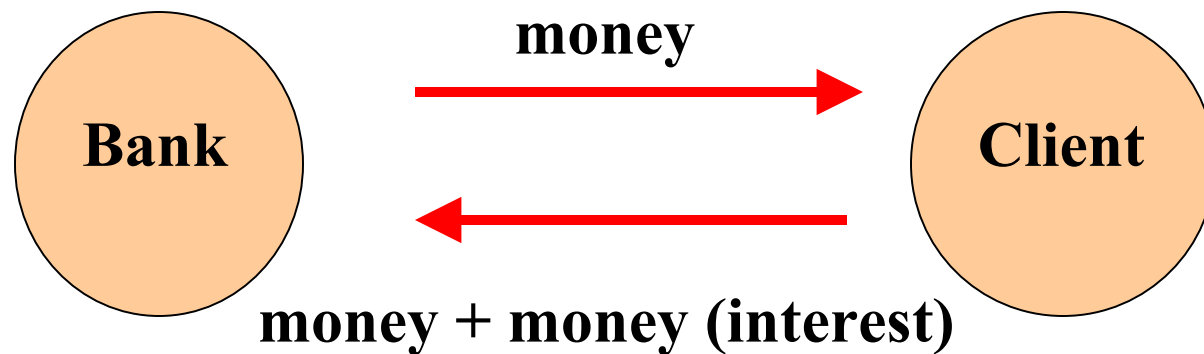
- Transactions are asset-based
- It is socially-responsible banking because it operates under Shariah restrictions
- Does not permit financing of prohibited goods / Industries
- It starves evil out of the society
- Ethics and moral values play a major role in investment decisions. Not a choice but a **must**

Distinguishing Features

Conventional Banking	Islamic Banking
- Conventional banking prices money.	- Islamic banking prices goods and services which creates real wealth in the society leading to economic well-being.
- Is based on fixed return on both Sides of the balance sheet.	- Is based on profit sharing on deposits side, and on profit on assets side.

Distinguishing Features

Conventional Banking	Islamic Banking
- Does not involve itself in trade and business	- Actively participates in trade and production.
- Depositors get a fixed rate regardless of the bank’s profitability, thus insulating them from the bank’s true performance.	- Profit is shared with the depositor, higher the bank’s profit, higher the depositors income.

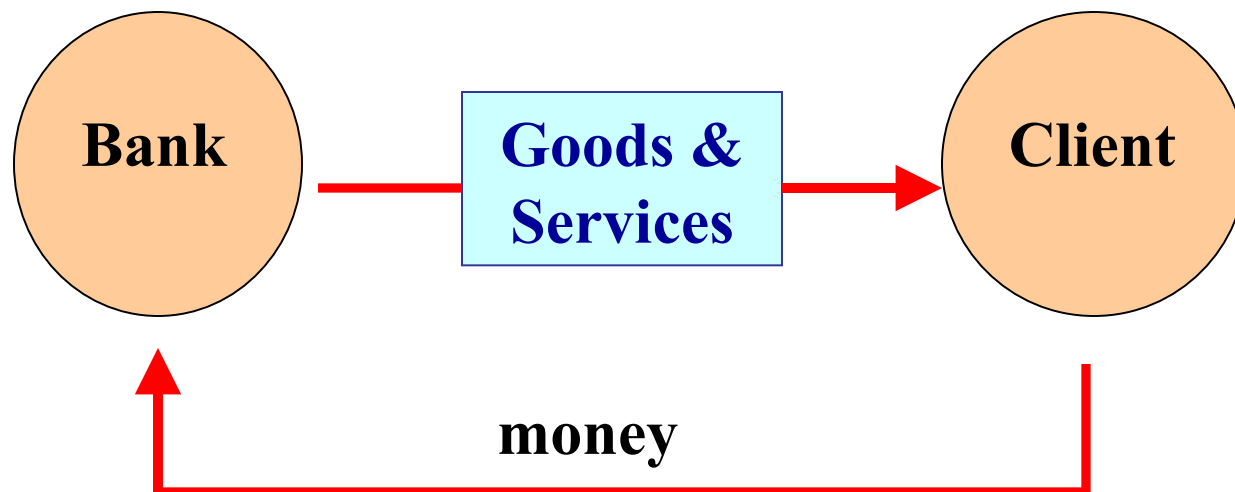
Basic Difference between Islamic and Conventional Modes of Finance

Basic Difference between Islamic and Conventional Modes of Finance

Islamic

Bank

Goods & Services

Client

money

A A O I F I

Accounting & Auditing Organization of Islamic Financial Institutions

An Umbrella organization for Islamic banking

AAOIFI – brief Introduction

- Established on 1 Safar, 1410H (26th February 1990).
- AAOIFI is headquartered in Bahrain.
- Entrusted with the task of developing for IFIs:
  - Shariah Standards
  - Accounting Standards
  - Auditing Standard
- Has published standards for all major modes of Islamic Finance.
- In Pakistan, AAOIFI standards are being adapted through ICAP's Committee
- Total Members are 122 Islamic Financial Institutions from 29 countries.

AAOIFI – Shariah Board

A host of world renowned Shariah Scholars.

3. Shaikh Muhammad Taqi Usmani/Chairman (Pakistan)
4. Shaikh Abdullah Sulaiman Al Manea/D.Chairman (KSA)
5. Shaikh AlSiddiq Mohamed Al Darir (Sudan)
6. Shaikh Wahba Mustafa Al-Zuhaili (Syria)
7. Shaikh Ajeel Jaseim Al-Nashmi (Kuwait)
8. Shaikh Abdel-Rahman bin Saleh Al-Atram (KSA)
9. Shaikh Mohamad Ali Al Taskhiri (Iran)
10. Shaikh Dato Ghazali bin Abdul Rahman (Malaysia)
11. Sheikh Dr. Nazih Hammad
12. Sheikh Al Ayashi Al Saddiq Faddad (KSA)
13. Shaikh Abdel Sattar Abu Ghuddah (KSA)
14. Shaikh Nizam Yaquby (Bahrain)
15. Shaikh Ahmad Ali Abdullah (Sudan)
16. Sheikh Dr Muhammad Daud Bakar (Malaysia)
17. Shiekh Dr Hussein Hamid Hassan (Dubai/UAE)

Key Misconceptions

Key Misconceptions

"Some people claim that No concept of banking in Islam"

•The use of the word **banking** does not make any institution halal or haram, rather it is the underlying scope & nature of activities that are being conducted which makes it halal or haram.

• Concept of banking based on pooling of excess funds of depositors and channeling them towards those who require it for investing activities is not only approved but encouraged by Islam.

• But the concept to lending and borrowing on the basis of interest in not allowed in Islam.

Key Misconceptions

"Islamic banking looks the same as conventional banking"

- The validity of a transaction does not only depend on the end result but rather the steps followed in reaching the end.
- A McDonald's burger in USA and Pakistan looks the same and has the same taste and smell but the former is haram and the latter is halal due to its compliance of Islamic guidelines of slaughtering animals.
- Same is also true for Islamic and Conventional banking. Former is halal being based on Islamic principles while latter being based on interest is haram.

Key Misconceptions

"A fixed rate of return is not permitted under Islamic Shariah"

Fixed return does not make a transaction halal or haram

For example:

- Profit on trading
- Rent on property

Key Misconceptions

"Can Interest rate be used as a Bench Mark?"

• Using Interest Rate benchmark for determining the profit in halal transactions does not render the transaction as invalid or haram.

• The nature of transactions determines the validity of the transaction.

Key Misconceptions

"Murabah sale is a border line transaction"

•The Holy Quran says "And Allah has permitted trade" (2:275)

• It is further mentioned"But let there be among you traffic and trade by mutual goodwill" (4:29)

•According to Imam Shafi in Al-Umm: "If an individual shows another a good and says: buy this, and I will give you this much profit in it; and then the second man buys it then the purchase is valid. If the first party said: I will give you this much profit in it , but I retain an option, then he may conclude the sale or leave it."(See Financial Transactions in Islamic Jurisprudence Vol1 Pg 361)

Key Misconceptions

"What is the ruling on pledging a security?"

- The contract of pledge is binding on the debtor who provides it, even if the asset so pledged is not possessed by the creditor

- Pledges derives their legitimacy from the following Qura'nic verse: "if ye are on a journey, and cannot find a scribe, a pledge with possession (may serve the purpose)".(Bqarah V283)

- And the practice of the prophet (peace be upon him) since it is known that the prophet (Peace be upon him) died while his shield was still held as security for a mortgage.(Bukhari 3/1068).

- Moreover a pledge encourages performance and thus prevents the contract from being breached. And this security also justifies its legitimacy.

(Adapted from AAOIFI Shariah Standards)

Islamic Banking

Inception & today

Inception of Islamic Banking

1. Cooperative banks in the sub-continent:
   - Cooperatives in Hyderabad Dakan (1940s)
   - Cooperative bank in Karachi (1950s)
2. Pilgrimage fund in Malaysia (1950s) full-fledged bank in 1967
3. Saving bank in Mitghamr, Egypt (1963)
4. Nasr Social Bank, Egypt (l97l), was created as an interest-free commercial bank
5. Dubai Islamic Bank (1974)
6. Islamic Development Bank (1974)
7. In 80s different initiative were taken in Pakistan, Iran & Sudan. Islamic Mutual funds started to emerges
8. In 90s AAOIFI, Harvard Islamic Finance Forum, Dow Jones Islamic Index were established
9. In 2000-05, several Islamic Bonds (sukooks) were issued. Key infrastructure institutes established including IFSB, IRA (Islamic Rating Agency), CIBAFI, ARCIFI.

Islamic Banking - Institutional Evolution

1990s
Specialised market niche

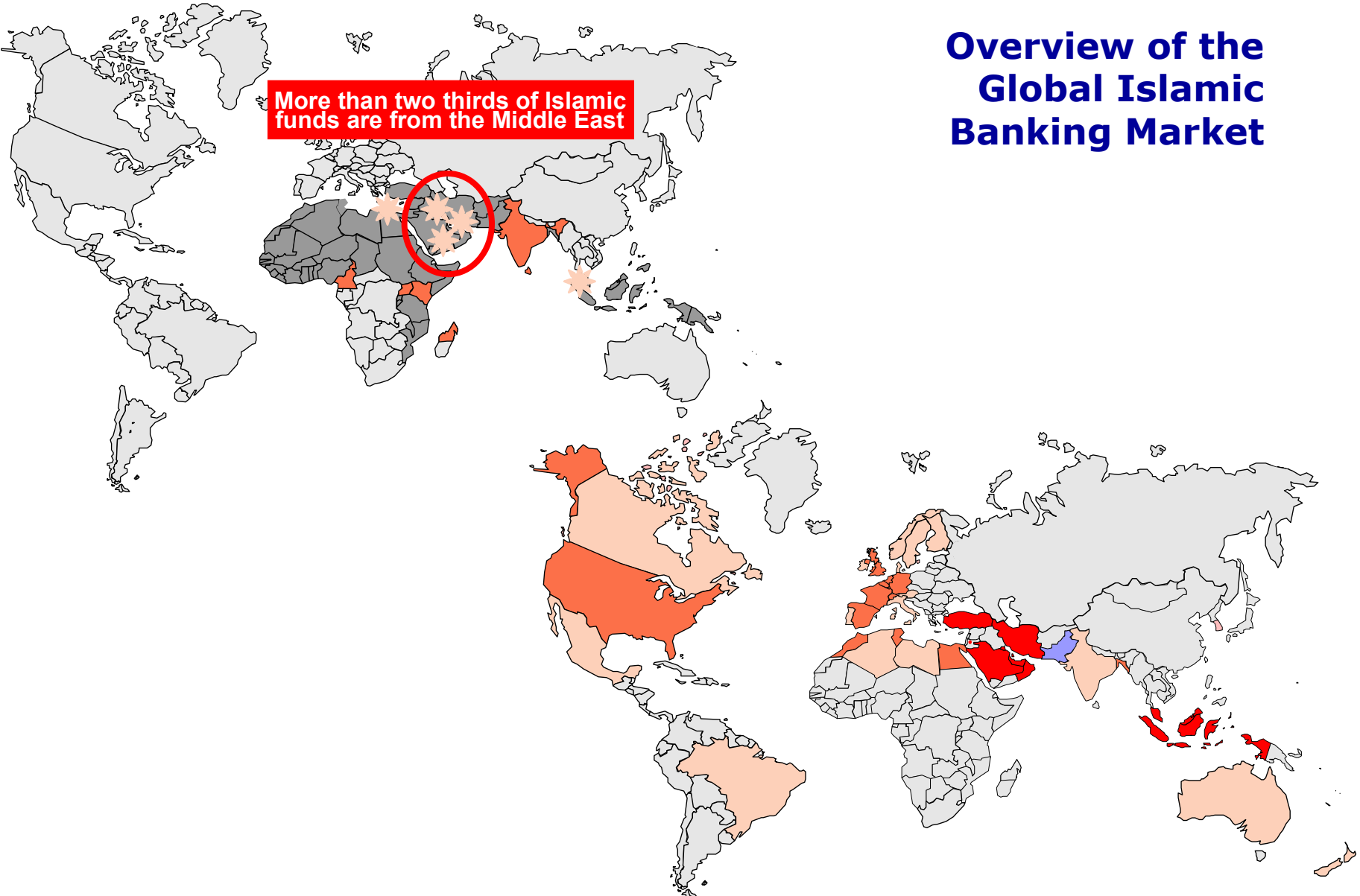
Investment banks like The International Investor (TII) & First Islamic Investment Bank appear offering specialised investment advisory and structured finance products.

1980s
Asset generation emphasis

Institutions like Shamil & Al-Baraka. Plain vanilla commercial banking with concentration on Murabaha, Ijarah and Istisna'a transactions.

1970s
Liability-driven institutions

Dubai Islamic, Kuwait Finance House & Bahrain Islamic bank, Faisal Islamic bank of Sudan & Egypt. Focus on resource mobilisation through Mudaraba.

Overview of the Global Islamic Banking Market
More than two thirds of Islamic funds are from the Middle East

Islamic Banking - a Success Story

- 350 + Islamic financial institutions
- $ 500 - 600 bn in funds
- 250+ Shariah compliance mutual funds with $ 300bn funds
- 37+ International Islamic sukooks issued
- 78 + Takaful companies operating world wide
- Post graduate degrees offered in Islamic banking by major academic institutions
- Important database system (HIFIP)
- Shariah & Accounting Standards for the Industry (AAOIFI)
- Recognition by IMF, World Bank and Basel Committee

- *Sources CIBAFI*

Islamic Banking - a Success Story

- More then 60 countries have ISLAMIC BANKING Institutions
  - Approx 37 Muslim countries including Kuwait, Dubai, Saudi Arabia, Iran Malaysia Brunei and Pakistan
  - Approx 23 non-Muslim countries including USA, UK, Canada, Switzerland, Srilanka, South Africa and Australia

Islamic Banking - a Success Story

Different types of IFI have emerged globally

- Islamic Commercial Banks
- Islamic Investment Banks
- Islamic Units of conventional banks
- Islamic Funds
- Islamic House Financing Schemes
- International Financial Market
- International Institutions of Islamic Banking

Islamic Banking - Institutional Evolution

- Main Groups
  - DMI
  - Al Baraka
  - Al Rajihi
  - Kuwait Finance House
- In Pakistan
  - Meezan Bank
  - Al Baraka
  - Bank Islami Pakistan
  - Emirates Global Islamic Bank
- Many foreign banks now have Islamic windows.
  - Citibank
  - ANZ
  - ABN AMRO
  - Goldman Sachs
  - Kleinwort Benson(German)
  - Hong Kong Shanghai bank
  - Saudi American bank
  - Saudi British Bank
  - UBS AG

Islamic Banking – in Pakistan

History

1979 Steps for Islamization of Economy

1985 Banks started using the mark up system to functions As Riba Free Institutions and Mudarabah companies formed

5 Federal Shariat Court Declared these institutions un-Islamic

1997 Al Meezan Bank established as an Investment Bank

- Federal Shariat court rejected all appeals against the previous and called for the establishment of an interest free financial system

14 Meezan Bank Opens as the first Commercial Islamic Bank

MEEZAN BANK
The Premier Islamic Bank

Islamic Banking – in Pakistan

CURRENT STATUS

- Legal framework in place, licenses available for
  - Islamic commercial bank
  - Islamic Subsidiary of a conventional bank
  - Stand alone Islamic branches of a conventional bank
- Legal framework hybrid of Bahrain and Malaysian model

Islamic Banking – in Pakistan

CURRENT STATUS

- Shariah Board established at SBP
- Islamic products available to cover 85% of the services offered by conventional banks
- Liquidity management products being developed
- Shariah audit developed by SBP
- Rupee denominated Sukooks has been issued

Islamic Banking – in Pakistan

- **Full Fledged Islamic Banks - 5**
  - ✓ Meezan Bank
  - ✓ Al Baraka Islamic Bank
  - ✓ Dubai Islamic Bank
  - ✓ Bank Islami Pakistan
  - ✓ Emirates Global Islamic Bank
  - ✓ First Dawood Islamic Bank
- **12 conventional banks operating Islamic Banking Branches**: Bank of Khyber,MCB, Bank Alfalah, Habib Bank AG Zurich, Standard Chartered Bank, Habib Metropolitan, Soneri, Prime, Askari, NBP, Abn Amro & UBL.
- **Expected shortly:** Allied Bank

Islamic Banking – in Pakistan

- Branch network of IB participants – **150**
- Asset base of IB – Rs. **118 bln**+
- Deposit base of IB – Rs. **83.28 bln+**
- Growth rate in 2006 around **65%**
- Share of IB in the overall Banking system stands at **2.9%**
- High demand for Islamic bankers.

As of December 31, 2006

Islamic Banking – in Pakistan

Growth & Future Trend

- Expected growth rate of over 100 %.
- Market size expected to reach 15-20 % of next 5 years
- High demand for Islamic bankers.
- IB will take-up the share of conventional banks
- All banks will be forced to switch to Islamic banking,
- Now or never – it's the matter of survival.

Uniqueness of Islamic banks

- Commingling between Finance & Religion and ethics

- Shariah Supervisory Boards (SSB)/Shariah Advisor
  - Studies Articles of associations and bylaws
  - Approval of all contracts
  - Contribute in designing new products
  - Audit the actual implementations
  - Issuance of Fatwas
  - Research - Training

The Way Forward

- Islamic banking is a viable alternative
- Islamic alternates of Banking Products can be very effectively developed for all types of needs
- However, there is a need for proper research and development.
- Ulema, bankers and professionals need to coordinate more frequently.

The Way Forward

We will have to change our attitudes

- we believe the newspaper but question the Quran
- we all want to go to heavens provided we DON'T have to believe, think, say or do anything for it

May Allah give us success in our efforts. - Ameen

Clearing Doubts

Clearing Doubts

1) **“Riba as practiced during the days of the Prophet (SAW) was only usury”.**

- Islam when prohibiting something does not only prohibit the prevalent form, but all forms that might erupt in future. The changed state does not change the ruling.
- E.g. Liquor, Pork, Corruption/Immorality: Today’s modern and sophisticated form does not change their rulings.
- The same applies to interest.

Clearing Doubts

2) “**Commercial interest did not exist in the days of Prophet (SAW).”**

- This claim is incorrect as both forms of interest existed in Islamic and pre Islamic history. Some examples:
- The tribe of Thaqeef advanced cash as well as commodities on interest to the natives of Taif, the tribe of Mughairah and the business community of Makkah.
- H.Abbas and H. Khalid bin Waleed (RA) formed a company with joint capital whose prime business was cash advancement on interest.

Clearing Doubts

1) **There is a Qura'nic verse "O believers do not devour one another's possession wrongfully; rather than that, let there be trading by mutual consent" (Al Nisa verse 29). "Wrongful devouring" only arise if the consent of one of the parties is absent but in commercial interest the mutual consent is present of both parties, so its not Riba.**

- Mutual consent is not the criteria to render anything halal which is haram.